



February 26, 2010

TO: Neighborhood Stabilization Program (NSP) Award Recipients and Program Administrators

FROM: Michael A. Hiler, Office Chief, Office of Housing and Community Partnerships

SUBJECT: Homeownership Finance Mechanism Guidance and Clarification

Factors affecting Ohio's current housing market, including low appraisal values, weak credit scores and the need for deep subsidies to encourage homeownership, are negatively affecting the loan-to-value ratios for mortgages. As a result, financial institutions are unwilling to extend credit to potential homebuyers in cases where a second or third mortgage must be secured as a result of Ohio Neighborhood Stabilization Program (NSP) rehabilitation assistance. Therefore, through this memorandum, the Ohio Department of Development's Office of Housing and Community Partnerships (OHCP) is providing guidance and clarification regarding the Ohio NSP homeownership finance mechanism rules.

Guidance and Clarification

Ohio NSP award recipients may provide the NSP rehabilitation portion of assistance to prospective homebuyers as a grant.

NSP-funded projects are required to follow the HOME Investment Partnerships Program affordability regulations, 24 Code of Federal Regulations 92.254, which state that "the HOME investment that is subject to recapture is based on the amount of HOME assistance that enabled the homebuyer to buy the dwelling unit." This *includes* any HOME assistance that reduced the purchase price from fair market value to an affordable price, but *excludes* the amount between the cost of producing the unit and the market value of the property. Basically, a direct subsidy that reduces the purchase price and/or downpayment and/or closing cost assistance would be the amount subject to the affordability/recapture regulations. Since the rehabilitation of the unit is not directly enabling the homebuyer to buy the unit, the assistance provided for rehabilitation or as a development subsidy **is not** required to be offered as a loan. Therefore, OHCP is recommending that NSP award recipients, that previously provided downpayment assistance or affordability subsidies and the rehabilitation assistance as a loan, change the rehabilitation portion of the assistance on these homeownership projects from a loan to a grant.

Scenarios

The following scenarios are offered as examples of the homeownership finance mechanism described above.

- A household with an income below 120% of the area median income is interested in purchasing a home, in the NSP target area, appraised at \$100,000. The rehabilitation cost estimate totals \$15,000. Based on the before rehabilitation appraisal, the bank is willing to loan \$90,000 for the first mortgage. NSP provides \$10,000 for downpayment assistance and \$15,000 for rehabilitation assistance. The soft second mortgage, the amount that enabled the purchase of the home, is \$10,000. A five-year period of affordability, subject to recapture if sold before the end of the term, would apply. (Note: The affordability period can be declining and forgiven at the end of the five-year term.) The \$15,000 rehabilitation portion would be a grant with no lien or repayment required.

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- A low- and moderate-income (LMI) household is interested in purchasing a home, in the NSP target area, appraised at \$100,000 and requiring \$25,000 of rehabilitation assistance. The bank is only willing to consider the before rehabilitation value of \$100,000. The homebuyer qualified for and can afford an \$80,000 mortgage. In order for the LMI household to purchase the home, purchase assistance (an affordability subsidy), totaling \$20,000, may be provided as a soft second mortgage with a 10-year affordability/recapture period. In addition, the \$25,000 rehabilitation assistance may be provided as a grant.

- A low-, moderate- and middle-income household is approved for and able to afford a \$100,000 first mortgage and selects a home, in the NSP target area, appraised at \$100,000 and needing \$15,000 of rehabilitation. No direct financial assistance is needed to purchase this unit because the bank will loan 100% of the price to purchase. The \$15,000 for rehabilitation is not directly enabling the homebuyer to buy the unit, so is not considered to be direct assistance under the affordability regulations. This project would not be eligible for NSP assistance. HOME regulations require the use of the resale method for properties that do not receive any direct assistance to purchase, but Ohio NSP only permits resale for Habitat for Humanity projects. (NOTE: If any closing cost assistance is provided, the closing cost assistance is considered direct purchase assistance).

Questions

Questions regarding the Ohio NSP should be directed to your OHCP Residential Revitalization Representative at (614) 466-2285.

MAH/DH/md